

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-08 FRB-03 INR-10

NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03 SP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01

AGR-01 H-01 L-03 PPT-01 CA-01 VO-05 ABF-01 /106 W

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R 152215Z AUG 78

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 7451

INFO USDOC WASHDC

AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: ECIN, ECON, EFIN, BEXP, NU

SUBJECT: TAX PACKAGE PASSED BY NICARAGUAN CONGRESS

REF: MANAGUA 3206

BEGIN SUMMARY: NICARAGUAN CONGRESS HAS PASSED A TAX PACKAGE WHICH WILL AFFECT AMOUNT OF TAXES PAID BY NICARAGUANS OF ALL INCOME STRATA. ALTHOUGH THE LAW PRESCRIBES INCREASES ON MANY TAXES, THE TWO MOST IMPORTANT (AND CONTROVERSIAL) ARE AN INCREASE IN THE GENERAL SALES TAX FROM 6 PERCENT TO 80 PERCENT AND AN INCREASE IN THE SELECTIVE CONSUMPTION TAX ON VARIOUS IMPORTED AND DOMESTICALLY-PRODUCED GOODS. MAJOR PRESS ATTENTION HAS BEEN GIVEN TO THE TAX PACKAGE. THE ANTI-GON NEWSPAPER HAS REPORTED THAT NICARAGUAN MERCHANTS AND INDUSTRIALISTS ARE OPPOSED TO THE TAX INCREASES AND THAT THE TAXES WILL HAVE LIMITED OFFICIAL USE

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MAJOR NEGATIVE EFFECTS ON THE ECONOMY. THE CHAMBER OF COMMERCE HAS STATED PUBLICLY THAT THE GON SHOULD NOT INCREASE TAXES TO GAIN MORE REVENUE BUT TO IMPROVE PRESENT COLLECTION SYSTEM, ELIMINATE CORRUPTION FROM THE GOVERNMENT, AND USE PRESENT TAX REVENUES MORE WISELY. PRO-GON PRESS HAS REPORTED GOVERNMENT STATEMENTS THAT THE TAXES ARE NECESSARY FOR DEVELOPMENT PROGRMS AND THAT NICARAGUA IS ONE OF THE LEAST-TAXED COUNTRIES IN CEN-

TRAL AMERICA. END SUMMARY.

1. ON AUGUST 8, NICARAGUAN CONGRESS PASSED A CONTROVERSIAL TAX PACKAGE WHICH WILL INCREASE VARIOUS TAXES PAID BY NICARAGUANS OF ALL INCOME STRATA. BILL EXPECTED TO BE SIGNED BY PRESIDENT SOMOZA WITHIN A FEW DAYS. EMBASSY REPORTED ON SOME OF THESE TAXES IN REFTEL.

2. SELECTIVE CONSUMPTION TAX: THE NEW LAW WOULD INCREASE THE RATE OF THE SELECTIVE CONSUMPTION TAX WHICH IS CURRENTLY LEVIED ON CERTAIN PRODUCTS (MOST OF WHICH ARE CONSIDERED LUXURY GOODS BY LOCAL STANDARDS) WHICH ARE IMPORTED OR PRODUCED LOCALLY. FOR MOST PRODUCTS THE INCREASE IS FIFTY PERCENT OF THE PRESENT RATE LEVIED ON THE GOOD. CURRENT RATES GENERALLY VARY BETWEEN 10 AND 30 PERCENT AND ARE LEVIED ON THE CIF VALUE PLUS ANY TARIFFS ON IMPORTED GOODS AND ON THE MANUFACTURERS' SELLING PRICE FOR DOMESTIC PRODUCTS. (NOTE: EMBASSY HAD REPORTED THT A TAX ON CIGARATTES AND LIQUOR MIGHT BE INSTITUTED. ALTHOUGH NO SEPARATE LAW WAS INTRODUCED FOR THESE PRODUCTS, INCREASES IN THE TAXES ON THESE GOODS WERE INCLUDED IN THE SELECTIVE CONSUMPTION TAX. THE RATE OF INCREASE VARIES FROM TWENTY TO FIFTY PERCENT OF THE PRESENT RATE LEVIED. HOWEVER, THESE PRODUCTS ARE ALREADY SUBJECT TO HIGH TAXES-FOR SOME AS MUCH AS 125 PERCENT.)

3. GENERAL SALES TAX: LAW INCLUDES AN INCREASE OF TWO PERCENT LIMITED OFFICIAL USE

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IN THE GENERAL SALES TAX, BRINGING IT TO 8 PERCENT. (IN ADDITION TO THE SALES TAX, A TWO PERCENT SOCIAL WELFARE TAX IS LEVIED ON ALL RETAIL SALES.)

4. CONGRESS ALSO PASSED FIVE LESS IMPORTANT (AND LESS CONTROVERSIAL) TAXES.

A. TAX ON PASSPORTS: LAW ALLOWS FOR AN INCREASE IN THE COST OF A BLANK PASSPORT. NO SPECIFIC AMOUNT OF PRICE INCREASE WAS INCLUDED IN THE LAW AND IT WILL BE DETERMINED BY THE TREASURY MINISTRY.

B. TAX ON COMMERCIAL LICENSES: LAW CALLS FOR AN INCREASE IN THE FEES FOR OBTAINING AN IMPORT LICENSE AND MANY OF THE FEES HAVE BEEN TRIPLED OR QUADRUPLD. EXAMPLE: AN ANNUAL LICENSE FOR AN AGENT OR REPRESENTATIVE OF A FOREIGN FIRM WHICH USED TO COST US\$43 WILL NOW COST US\$143.

C. TAX ON REGISTRATION OF MEDICINES, COSMETICS, ETC.: LAW WOULD INCREASE BY FIVE DOLLARS THE FEE FOR THE REGISTRY OF MEDICINES, COSMETICS, AND SIMILAR ITEMS WITH THE MINISTRY OF

PUBLIC HEALTH. THE NEW LAW ALSO EXPANDS THE FORMER LAW AND RE-
QUIRES THAT FIRMS PRODUCING OR DISTRIBUTING THESE PRODUCTS
PAY A FEE FOR INSCRIPTION WITH THE MINISTRY AND FOR A MONTHLY
INSPECTION OF THEIR PREMISES BY THE MINISTRY. AMOUNTS IN-
VOLVED ARE SMALL.

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L-03 H-01 AGR-01 CA-01 VO-05 PPT-01 ABF-01 /106 W
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D. TAX ON CONCESSIONS FOR ALCOHOLIC PRODUCTS AND BEVERAGES:
TAXES LEVIED ON PRODUCERS, SELLERS, DISTRIBUTORS, ETC.,
OF ALCOHOL PRODUCTS HAVE BEEN INCREASED BY APPROXIMATELY FIFTY
PERCENT. AMOUNTS ARE NOT SUBSTANTIAL. EXAMPLE: A WHOLESALER
OF AGUARDIENTE (I.E., INEXPENSIVE, HIGH-PROOF LIQUOR) MUST
NOW PAY \$285 FOR HIS ANNUAL SALES LICENSE INSTEAD OF \$143.

3. TAX ON STAMPS: LAW INCREASES AMOUNT OF TAX LEVIED ON PAPER
AND STAMPS SOLD FOR AFFIXTURE TO OFFICIAL DOCUMENTS. AMOUNTS
INVOLVED ARE NOT SIGNIFICANT.

5. INCOME TAX LAW: GON PROPOSED CHANGES IN THE INCOME TAX LAW
ARE BEING HELD IN CONGRESS FOR FURTHER STUDY. ALTHOUGH THE LAW
IS RATHER COMPLICATED, EMBASSY'S IMPRESSION IS THAT LAW PROPOSES
AN ADDITION TO PRESENT INCOME TAX LAWS WHICH WOULD ALLOW THE GON
TO DECIDE WHETHER TAX ON CORPORATE PROFITS WOULD BE CHANGED
TO THE FIRM OR TO THE PERSONAL INCOME TAX ACCOUNT OF THE IN-
DIVIDUAL STOCKHOLDERS. UNLIKE THE U.S., NICARAGUA ONLY TAXES

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CORPORATE DIVIDENDS ONCE, AND IT IS GENERALLY THE CORPORATION WHICH PAYS RATHER THAN THE STOCKHOLDERS. THE LAW DOES NOT PROPOSE TO CHANGE THE RATE OF INCOME TAX CHARGED, DEDUCTIONS ALLOWED, OR THE METHOD OF COLLECTION. CORPORATE AND INDIVIDUAL INCOMES ARE TAXED AT THE SAME RATE IN NICARAGUA.

6. EXPORT TAX ON WINDFALL PROFITS: DR. ROBERT INCER, PRESIDENT OF THE CENTRAL BANK OF NICARAGUA, COMMENTED IN A RECENT TELEVISION INTERVIEW THAT NO TAX OF THIS TYPE WILL BE PROPOSED AT THIS TIME.

7. EXPORT INCENTIVES: NO LAW HAS BEEN PROPOSED WHICH WOULD USE TAX CREDITS AS AN INCENTIVE TO INCREASE EXPORTS NOR HAS GON COMMENTED PUBLICLY ON THE POSSIBILITY OF SUCH A LAW.

8. LOCAL PRESS HAS GIVEN MAJOR ATTENTION TO THE TAX PACKAGE. LA PRENSA, THE ANTI-GON NEWSPAPER, HAS REPORTED THAT NICARAGUAN MERCHANTS AND INDUSTRIALISTS ARE OPPOSED TO THE TAX INCREASES, STATING THAT THE INCREASED TAXES WOULD LOWER ACTUAL BUYING POWER AMONG THE NICARAGUAN PEOPLE, PRODUCE A SUBSTANTIAL DECREASE IN NATIONAL PRODUCTION, AND INCREASE UNEMPLOYMENT. LA PRENSA ALSO FOCUSED ON THE ISSUE OF THE USE OF PAST TAX MONIES COLLECTED BY THE GON, STATING THAT NICARAGUANS SHOULD REJECT THE IMPOSITION OF MORE TAXES AS MANY PRIVILEGED PERSONS WITHIN THE GOVERNMENT ARE KNOWN NOT TO PAY TAXES AT ALL OR PAY THEM AT A MUCH LOWER RATE. ARTICLES ALSO STATED THAT TAX MONEY IS HIGHLY SUSCEPTIBLE TO WASTE AND CORRUPTION AS IS EVIDENCED BY THE BUDGETARY PROBLEMS OF THE GOVERNMENT AND ITS VARIOUS AUTONOMOUS AGENCIES.

9. THE CHAMBER OF COMMERCE PUBLISHED A STATEMENT IN WHICH IT FIRMLY REJECTED THE TAX PACKAGE AND SUGGESTED THAT IF THE GON NEEDS MONEY THAT IT SHOULD INSTITUTE VARIOUS PROGRAMS TO

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INCREASE REVENUES WITHOUT RAISING TAXES. AMONG THE MEASURES SUGGESTED BY THE CHAMBER WERE THE FOLLOWING: 1) THE ELIMINATION OF ALL TAX EXEMPTIONS FOR CONGRESSMEN, NATIONAL GUARD OFFICERS, DIPLOMATIC MISSIONS, AND THE PRESIDENT OF THE REPUBLIC; 2) THAT GON EMPLOYEES BE PAID FAIR WAGES AND THUS DECREASE THE NEED FOR ILLEGAL GAIN BY THOSE PERSONS; 3) THAT CONSULAR FEES PAID TO NICARAGUAN CONSULS ABROAD BE SENT TO THE GON TREASURY INSTEAD OF BEING RETAINED BY THE CONSULS; 4) THAT THE SCHOOL OF BASIC TRAINING OF THE INFANTRY (WHICH IS RUN BY PRESIDENT

SOMOZA'S SON) BE ELIMINATED.

10. NOVEDADES, THE PRO-GON DAILY, CARRIED A RECENT INTERVIEW WITH DR. ROBERTO INCER BARQUERO, PRESIDENT OF THE CENTRAL BANK, IN WHICH HE STATED THAT NICARAGUA'S TAX RATE IS LOWER THAN THAT OF ANY OTHER CENTRAL AMERICAN COUNTRY, AND THAT NICARAGUA HAS NEVER SIGNIFICANTLY TAXED EXPORTS, NOR DOES THE COUNTRY HAVE ANY CURRENCY CONTROLS. HE POINTED OUT THAT ALL CENTRAL AMERICAN COUNTRIES HAVE THE SAME PROPORTION OF REVENUES GATHERED FROM DIRECT TAXES (25 PERCENT) IN RELATION TO REVENUES FROM INDIRECT TAXES (75 PERCENT) AND SINCE NICARAGUA DOES NOT HAVE A SUBSTANTIAL INDUSTRIAL SECTOR WHICH IT CAN TAX, IT MUST CONTINUE TO DEPEND ON INDIRECT TAXES SUCH AS THOSE IN THE TAX PACKAGE. INCER STATED THAT THE TAX PACKAGE WILL INCREASE THE GON'S REVENUES US\$50 MILLION.

11. ANOTHER PUBLIC DEFENDANT OF THE TAX REFORMS HAS BEEN LUIS PALLAIS DEBAYLE, VICE-PRESIDENT OF THE CHAMBER OF DEPUTIES AND PRESIDENT SOMOZA'S COUNSIN. HE HAS STATED THAT THE MONEY IS NEEDED FOR SOCIAL PROGRAMS AND THAT TO OBTAIN NECESSARY MONEY FROM ABOARD FOR DEVELOPMENT PROGRMS, THE GON MUST SHOW A WILLINGNESS TO CONTRIBUTE FUNDS TO THESE PROJECTS. PALLAIS INDICATED THAT IF MERCHANTS OR INDUSTRIALISTS DID NOT PAY THE TAXES, THEN THE GON HAS TO THE RIGHT UNDER THE LAW TO CLOSE THEIR ESTABLISHMENTS. HE ALSO INDICATED THAT 2 MILLION NICARAGUANS (OF A TOTAL POPULATION OF 2.4 MILLION) WILL NOT BE AFFECTED BY THE REFORMS, AND THAT "THOSE WHO WILL PAY MORE ARE THOSE LIMITED OFFICIAL USE

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THAT HAVE MORE."

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Message Attributes

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Decaption Date: 01 jan 1960
Decaption Note:
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SAS ID: 1737904
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Status: NATIVE
Subject: TAX PACKAGE PASSED BY NICARAGUAN CONGRESS
TAGS: ECIN, ECON, EFIN, BEXP, NU
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/5e048663-c288-dd11-92da-001cc4696bcc
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